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FINANCE

JUN 1 1989

Honorable William Campbell, Chairperson
Joint Legislative Budget Committee

Honorable Alfred E. Alquist, Chairperson
Senate Committee on Budget and Fiscal Review

Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

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1989-90 BUDGET CONSIDERATIONS

Consistent with the agreement reached between the Governor and the Leadership of the Legislature, the following is a list of priority funding issues requested to be included in the Budget Conference Committee deliberations. Also included are several updated expenditure estimates that should assist the budget conference committee in its work.

DEPARTMENT OF COMMERCE

It is proposed that funding for the Competitive Technology Program be increased by $3 million to ensure that additional worthwhile projects can be funded in 1989-90. This increase will bring total FY 1989-90 funding for the program to $10 million.

DEPARTMENT OF TRANSPORTATION

The Department of Finance has updated the forecast of revenues expected from the sales tax on diesel fuel. Based on the latest forecast, an additional $10 million from this source will be available to the Transportation Planning and Development Account. It is requested that this additional revenue be used to augment the local assistance budget for Transit Capital Improvement projects by $10 million.

DEPARTMENT OF CORRECTIONS

The Department has updated its 1989-90 population projections and construction schedule to accommodate a June 30, 1990 inmate population of 94,995, an increase of 9,025 above the 85,970 estimate reflected in the Governor's Budget. This unprecedented growth in prison population will require augmentations, to the Senate budget level, of $78,728,000, General Fund, $1,955,000, Inmate Welfare Fund and $635,000 in Reimbursements, for the State Operations budget, and $6,498,000, 1988 Bond funds, for various minor capital outlay projects including modifying gymnasiums in new prisons to provide inmate housing. These amounts noted above are in addition to specific actions already taken by the Senate Budget and Fiscal Review Committee.

The proposed augmentations support the custody and support staff for various modifications to the Department's inmate housing plans including extensive additional prison overcrowding and 1,710 additional community based beds; provid for additional inmate records staff and the activation of a new Humboldt conservation camp and the McCain Valley Camp, and allow the Department to assume custody/parole responsibility for mentally disordered offenders pursuant to the court decision in People v. Gibson. Finally, these higher support costs are partially offset by a reduction of $5,800,000, General Fund, in local assistance costs due to parole violators being moved from county to State facilities more expeditiously. The activation of the Humboldt camp will require technical adjustments to the Department of Forestry budget item.

CALIFORNIA CONSERVATION CORPS

An increase of $148,000 General Fund is proposed to relocate the California Conservation Corps (CCC) from their present location at the Humboldt Fire Center This relocation will provide an additional 120 beds for the California Departmen of Corrections.

As part of the relocation long-term strategy, it is planned that the CCC will en into a lease purchase arrangement with the City of Fortuna which will build a permanent facility that would be available in early FY 1990-91. Pending complet of the new facility, the CCC plans to temporarily relocate 50 residential corpsmembers to existing neighboring satellite facilities, and the remaining 10 residential corpsmembers to a yet to be determined location in the City of Fortu

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

Based on recent expenditure patterns, it is estimated that the Department will expend approximately $40 million from the General Fund for emergency fire suppression costs. To insure that sufficient funds are available to fund these costs, it is proposed that a new item of appropriation be established from which allocations would be made, as needed, by the Director of Finance.

DEPARTMENT OF REHABILITATION

The Department of Rehabilitation's (DOR) budget includes approximately $8,500,00 in unmatched federal Vocational Rehabilitation (VR) funds. Formerly these VR fu were matched by Career Opportunity Development (COD) program funds. In order to insure the continuation of federal funds, DOR will need additional resources totaling $2,114,000 to match these funds. The provision of this match will allo the DOR to continue its current service level for its basic VR program and avoid reduction of services to approximately 11,000 VR clients.

TOXICS PROGRAM

It is anticipated that, in addition to continued authorization of fee revenues, Toxics Program will require approximately $10 million from the General Fund. Authorization to levy the necessary fees will require legislation enacted subsequent to the Budget Act. However, it is essential that the need to fund th Toxics program be considered while determining the allocation of available gener fund resources.

UNIVERSITY OF CALIFORNIA

A total of $3,500,000 is requested to be added to UC's base to maintain full funding of the estimated annual depreciation of State-funded instructional equipment which still has a useful life. A total of $5,000,000 is requested t fund a portion of UC's proposed four-year $29.2 million PCB Mitigation Program comply with EPA regulations. An additional $10,600,000 is requested to be add UC's base for lease purchase payments under the Revenue Bond Construction Prog The Governor's Budget did not anticipate the sale of Revenue bonds. It is now proposed that the bond sales proceed.

HASTINGS COLLEGE OF THE LAW

A total of $29,000 is requested to provide the total $251,000 requested for Ph of the Skills Training and Clinical Program improvement. The remaining $222,0 being provided from a redirection of savings from the actuarial valuation of retirement contributions already contained in the 1989-90 Governor's Budget.

CALIFORNIA STATE UNIVERSITY

The Administration is proposing $2,429,000 for computing support for student workstations. An additional $6,340,000 is being requested to fund student and audio visual services ($3,005,000); fully fund faculty staffing per CSU formul ($1,000,000); fund replacement of instructional equipment ($2,000,000); and me the debt service on revenue bonds ($335,000).

CALIFORNIA MARITIME ACADEMY

An increase of $120,000 is proposed for dredging of CMA's boat basin to remove excess build-up of silt. The current accumulation of silt is jeopardizing the access of CMA's training boats to and from the boat basin.

An increase of $50,000 is proposed to begin the first of three phases of windo replacement in the old residence hall. The current windows have weathered to point of severe leakage and cannot be repaired.

CALIFORNIA COMMUNITY COLLEGES

An increase of $102,000 and 1.4 personnel years is proposed for additional Sta support to implement the transition from the credentials system to minimum hir qualifications pursuant to Chapter 973, Statutes of 1988 (AB 1725).

STUDENT AID COMMISSION

The Administration is proposing $15,970,000 to consolidate in the SAC all the fee-related financial aid for students attending the University of California and the California State University (CSU), and to increase the total amount of to fully cover both systemwide and campus-level mandatory student fees. Of th $15,970,000 augmentation, $7,574,000 is a transfer of campus-based aid from UC ($3,317,000) and CSU ($4,257,000), resulting in a net augmentation of $8,396,0

In addition, $2,115,000 is proposed to increase the number of new Cal Grant B awards by 1,500. This proposal would increase the number of new awards for low-income, disadvantaged students from 10,750 to 12,250.

Finally, $7,936,000 is proposed to increase the maximum amount of Cal Grant A and B awards for students attending independent institutions by $540. During the 1980's, the cost of attending California's nonpublic colleges has increased more rapidly than the growth in State financial aid, resulting in substantial borrowing by Cal Grant recipients to finance their education. This proposal would raise the maximum grant at nonpublic postsecondary schools from $4,710 to $5,250.

OFFICE OF THE STATE PUBLIC DEFENDER

An additional $2,300,000 (General Fund) is proposed to provide funding for 20 additional attorney positions and 10 associated clerical support staff to handle the increasing volume of appellate and capital case workload, and the expectation that most, if not all, of the post affirmed capital cases currently carried by the State Public Defender will proceed to the federal appellate system. It is anticipated that total indigent capital appellate and post affirmance caseload will annually increase by up to 45 and 40 cases respectively. Additionally, of the 251 individuals currently on death row, 22 are currently unrepresented. This staffing increase will enable the Office to increase its share of this increasing casework, and thus help address the growing number of appellate cases before the State's justice system.

HEALTH BENEFITS

Section 22825.1 of the Government Code requires the State to pay 100 percent of the weighted average of health benefit plan premiums for employees and 90 percent of the weighted average of health benefit plan premiums for family members. The Board of Administration of the Public Employees' Retirement System (PERS), unlike previous years, adopted <u>two</u> health premium rates for the mandatory State 100/90 contribution. These premium rates differed by the assumptions followed by PERS with respect to the percentage increase of PERSCARE (the State's consolidated, self-funded, fee for service health plan administered by PERS). One version assumed an increase of 30.5 percent for PERSCARE, and the other version assumed an increase of 17.4 percent.

The Governor's Budget (January 10 version as proposed to be amended by a Finance Letter dated May 19, 1989) reflects the 30.5 percent PERSCARE health rate increase which includes a 3 percent underwriting risk factor to offset any deficiencies that may occur in the payment of health premiums since PERSCARE is a new plan with no experience in this area. The Governor's Budget proposed funding in items as follows to implement this rate:

9650-001-001	$177,415,000
9800-001-001	151,916,000
9800-001-494	62,857,000
9800-001-988	47,231,000

The Senate and Assembly Committees adopted budget versions which reflect the 17.4 percent increase for PERSCARE which does not include any underwriting risk factor and is dependent upon a supplemental surcharge on <u>all</u> premiums of 2.5 percent to be paid by the employer. Funding was included in the following budget items as follows:

9650-001-001	$175,244,000
9800-001-001	152,575,000
9800-001-494	63,183,000
9800-001-988	47,469,000

We request that the Committee change the funding for employee health benefit care contributions to the version reflective of the 30.5 percent PERSCARE rate increase together with conforming actions to Control Sections 4.00 and 4.20.

DEBT SERVICE

An increase in projected bond sales in the budget year will contribute to a $47 million increase in debt service costs for the 1989-90 budget year.

REVENUE ANTICIPATION NOTES

Due to the increase in revenues in the current year the estimate for the Revenue Anticipation Note (RAN) sale for 1989-90 has been reduced from $3.5 billion in the January Budget to $2.5 billion. As a result revenues (interest earned) from the RAN will be reduced by $38 million from the May 1989 estimate and interest costs on the new RAN, assuming increased interest rates, will be reduced by $8 million from the 1989-90 Governor's Budget.

GENERAL FUND CREDITS FROM FEDERAL FUNDS

"General Fund Credits from Federal Funds" has been reduced by $13 million due to potential underrecoveries. General Fund credits from Federal Funds, otherwise known as SWCAP, are recoveries from the Federal Trust Fund and transferred to the General Fund for costs incurred by various central service departments. Based on a recent review of SWCAP recoveries budgeted by Federal funded departments may not materialize.

UNIDENTIFIED SAVINGS

General Fund unidentified savings for the budget year have been reduced by $40 million. The revised total for unidentified savings is $100 million. The revised estimate of $100 million more closely approximates the savings expected through normal operations.

TIDELANDS REVENUES

SPECIAL ACCOUNT FOR CAPITAL OUTLAY (SAFCO)

The Senate has already taken actions that would provide approximately $34 million from SAFCO for capital outlay needs. The administration supports those proposals. In addition, we request the following items also be funded from SAFCO. The combination of these actions would leave a substantial reserve in the fund. It would be prudent to reserve these funds for completing the projects proposed below.

DEPARTMENT OF GENERAL SERVICES

Add Item 1760-301-036 to provide $7,276,000 as follows: (a) $2,500,000 for preliminary plans and working drawings for the San Francisco State Office Building Retrofit (350 McAllister Street); (b) $2,771,000 for working drawings for the Sacramento Archives and Secretary of State Buildings (Site 7 Complex); (c) $101,000 for working drawings for the San Francisco State Office Building (525 Golden Gate) ceiling and light fixture repair; (d) $845,000 for working drawings for the Sacramento State Library Annex (Site 5); (e) $1,021,000 for working drawings for the Sacramento Franchise Tax Board Phase II (Butterfield Way); and (f) $38,000 for the handicap accessibility minor project located in the Department of Food and Agriculture Building.

STATE LANDS COMMISSION

Add Item 3560-301-036 to provide $1,155,000 in funding for the Statewide Hazard Removal Program. This will fund the removal of thirty-one public safety hazards along the State's coastline and inland waterways.

DEPARTMENT OF PARKS AND RECREATION

Add Item 3790-001-036 to provide $3.0 million in additional one-time funding for various deferred maintenance/special repairs projects.

DEPARTMENT OF WATER RESOURCES

Add Item 3860-301-036 to provide $8,290,000 in funding for the Cache Creek Settling Basin Project. These funds are needed to provide the acquisition of the necessary lands, easements, rights-of-way, and relocations as the State's share in this federally sponsored construction project. If State funding is provided, the federal government will contribute $16.2 million towards the completion of this project in 1989-90 and 1990-91.

DEPARTMENT OF FOOD AND AGRICULTURE

Add Item 8570-301-036 to provide $302,000 in funding for three minor capital outlay projects. The projects include vehicle crash cushions for an inspection station, a modular building for increasing inspections at an inspection station, and a handicapped access ramp for the Sacramento headquarters.

DEPARTMENT OF MILITARY

Add Item 8940-301-036 to provide $484,000 in funding for seven projects in which the State funds the project planning, working drawings and supervision of the construction which is financed from federal funds.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Governor's Budget includes $3,883,000 for special repairs and maintenance projects at the developmental centers. In order to accelerate the current maintenance and special repair project schedule and ensure continued accreditation of the centers, the Department of Developmental Services has identified a one-time need for $4,000,000.

DEPARTMENT OF MENTAL HEALTH

The Governor's Budget includes $2,459,000 for special repairs and deferred maintenance at the State hospitals. In order to accelerate the completion of these projects, and help ensure the continuance of hospital accreditation, the department has identified a one-time need for $2,000,000.

HIGHER EDUCATION

An augmentation of $3.5 million for special repairs and deferred maintenance is proposed for the California State University. An additional $3.5 million is proposed for deferred maintenance for the University of California.

If you have any questions or need additional information regarding this matter, please call Stan Stancell, Assistant Director, at 445-8610.

Original signed by
JESSE R. HUFF

JESSE R. HUFF
Director of Finance

cc: Honorable William Baker, Vice Chairperson, Assembly Ways and Means Committee
Honorable John Seymour, Vice Chairperson, Senate Committee on Budget and Fiscal Review
Honorable Ross Johnson, Assembly Minority Leader
Honorable Ken Maddy, Senate Minority Leader
Honorable Terry B. Friedman, Chairperson, Assembly Ways and Means Subcommittee No. 1
Honorable Robert Campbell, Chairperson, Assembly Ways and Means Subcommittee No. 2
Honorable Jack O'Connell, Chairperson, Assembly Ways and Means Subcommittee No. 3
Honorable Maxine Waters, Chairperson, Assembly Ways and Means Subcommittee No. 4
Honorable Mike Roos, Chairperson, Assembly Ways and Means Subcommittee No. 5
Honorable Steve Clute, Chairperson, Assembly Ways and Means Subcommittee No. 6
Honorable Nicholas Petris, Chairperson, Senate Budget and Fiscal Review Subcommittee No. 1
Honorable Rose Ann Vuich, Chairperson, Senate Budget and Fiscal Review Subcommittee No. 2
Honorable Bill Greene, Chairperson, Senate Budget and Fiscal Review Subcommittee No. 3
Honorable Alan Robbins, Chairperson, Senate Budget and Fiscal Review Subcommittee No. 4
Ms. Elizabeth G. Hill, Legislative Analyst (4)
Ms. Gail Greer Lyle, Executive Secretary, Commission on State Finance
Mr. Fred Silva, Chief Fiscal Adviser, Senate President pro Tempore's Office
Ms. Leslie Medina, Assistant to the Speaker, Assembly Speaker's Office
Mr. Lee Bennett, Staff Director, Senate Minority Fiscal Committees
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